

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Global Expedited Package Services 3 (MC2010-28)
Negotiated Service Agreement

Docket No. CP2014-78

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE NOTICE CONCERNING MODIFICATION
TO A GLOBAL EXPEDITED PACKAGE SERVICES 3
NEGOTIATED SERVICE AGREEMENT

(May 20, 2015)

The Public Representative hereby provides comments pursuant to Order No. 2482.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice of filing a modification to a Global Expedited Package Services (GEPS) 3 agreement (Agreement).² The Notice includes a public (redacted) version of the modification and the certified statement of compliance in Attachment 1 and Attachment 2, respectively, as required by 39 C.F.R. § 3015(c)(2). The Postal Service also filed under seal an unredacted version of the modification, the certified statement and revised financial workpapers estimating the value of the Agreement, as modified.

In Order No. 2194, the Commission approved the Postal Service's request to add the Agreement to the Competitive product list.³ The Agreement has a term of one

¹ Order No. 2482, Notice and Order Concerning Modification to a Global Expedited Package Services 3 Negotiated Services Agreement, May 13, 2015.

² Notice of United States Postal Service of Filing Modification to Global Expedited Package Services 3 Negotiated Service Agreement, May 12, 2015 (Notice).

³ See Order No. 2194, Order Approving Additional Global Expedited Package Services 3 Negotiated Service Agreement, Docket No. CP2014-78, September 23, 2014.

calendar year from the effective date.⁴ The Agreement became effective October 1, 2014.⁵

The modification that is the subject of this proceeding changes the mailer's address in the preamble and for notice in Article 31, designates both the Option A and Option B postage payment methods for the mailer, adds a new paragraph 3 to Article 5 concerning acceptance of non-qualifying mail and the use of a Permit Imprint for such mail, adds a new paragraph 3 to Article 6 concerning qualifying mail preparation requirements, and replaces the current prices in Annex 1 of the Agreement with the Annex 1 prices included in the modification. Notice, Attachment 1. The Postal Service states that the prices are intended to take effect on June 1, 2015. Notice at 1.

COMMENTS

The Public Representative has reviewed the Postal Service's Notice, the Agreement, the modification, and revised financial workpapers filed under seal accompanying the Notice. Based upon that review, the Public Representative concludes that the modified Agreement remains functionally equivalent to the baseline agreement for the GEPS 3 product. Moreover, the new negotiated prices in Annex 1 should generate sufficient revenues to cover costs.

At the outset, the Public Representative observes that the modifications, to include the new negotiated prices, appear to have broad implications. In this regard, the Postal Service's Notice does not address whether the Agreement as modified remains functionally equivalent to the baseline agreement for the GEPS 3 product, which is the subject of Docket No. CP2010-71.⁶ The Public Representative's review indicates that the modification makes changes to contract terms, as summarized above, that primarily effect certain obligations of the mailer. That said, the Public Representative's review of the revised financial workpapers reveals that the modified

⁴ Docket No. CP2014-78, Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 3 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, September 12, 2014, attachment 1, (Article 12) at 7.

⁵ Docket No. CP2014-78, United States Postal Service Response to Order No. 2194 Concerning Effective Date of a Global Expedited Package Services 3 Negotiated Service Agreement, September 26, 2014.

⁶ See Order No. 503, Order Approving Global Expedited Package Services 3 Negotiated Service Agreement, Docket Nos. MC2010-28 and CP 2010-71, July 29, 2010, at 7.

Agreement exhibits cost and market characteristics that are similar to the baseline agreement as both agreements involve the Priority Mail Express International (PMEI) and/or Priority Mail International (PMI) shipping services. Therefore, the modification does not change the cost or market characteristics of the Agreement, and the Agreement as modified continues to be functionally equivalent to the baseline agreement of the GEPS 3 product.

The Public Representative also observes that the projected cost coverage for the modified Agreement is somewhat lower than the cost coverage presented in the financial workpapers initially filed with the Agreement. This reflects the fact that most of the volume is concentrated in one country price group and a few weight cells within that group. Those weight cells have the lowest cost coverages compared to all other country group weight cells. Nevertheless, the revised financial workpapers show that projected revenues should cover costs of the modified Agreement during the remainder of its term, until October 1, 2015, a period of 4 months.

Nevertheless, the modifications taken as a whole suggest the Postal Service is introducing new, “discounted” prices for mail tendered (via dropship) at the Postal Service’s International Service Centers (ISCs). The existence of the new prices are revealed in the financial workpapers, where the financial results for one of the shipping services are reported for mail tendered at ISCs as a “Pre-Sort” Dropship and separately for mail of the same shipping service tendered as ISC Dropship.

The Postal Service does not explain the introduction of the new ISC pre-sort dropship prices. Nor does the Postal Service explain the presorting to be undertaken by the mailer to be eligible for the dropship prices. As this appears to be the first instance of ISC pre-sort dropship prices, the Commission may wish to inquire into the nature of these dropship prices.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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